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# Consumer Alert

Federal Trade Commission ■ Bureau of Consumer Protection ■ Office of Consumer and Business Education

## Profits In Pyramid Schemes? Don't Bank On It

Think pyramids and multi-level marketing plans are the same? Think again.

*Multi-level marketing plans* are a way to sell goods or services through distributors. These plans usually promise that if you sign up to be a distributor, you will receive commissions — not only on *your sales* of the plan's goods or services, but also on the *sales of the people you recruit* to join the distributors.

*Pyramid schemes* have a similar structure, but a completely different focus. They concentrate on the commissions you could earn just for recruiting new distributors, and generally ignore the marketing and selling of products or services.

Most states outlaw pyramidizing. The reason: Plans that pay commissions for recruiting new distributors inevitably collapse when new distributors can't be recruited. When a plan collapses, most people — except perhaps those at the very top of the pyramid — lose their money.

The Federal Trade Commission offers these tips to help you avoid losing money to an illegal pyramid scheme or a fraudulent multi-level marketing plan:

1. Avoid any plan that offers commissions for recruiting additional distributors.
2. Beware of plans that ask new distributors to spend money on high-priced inventory. These plans can collapse quickly — and also may be illegal pyramids in disguise.
3. Be cautious of plans that claim you'll make money through continued growth of your "downline" — the commissions on sales made by new distributors you recruit — instead of through sales you make yourself.
4. Beware of plans that promise enormous earnings or claim to sell miracle products. Just because a promoter of a plan makes a claim doesn't mean it's true! Ask the plan's promoter to back up the claims with hard evidence.
5. Beware of shills — "decoy" references that the promoter pays to describe fictional success in earning money through the plan.
6. Don't pay or sign any contracts in an "opportunity meeting" or any other high-pressure situation. Take your time to think over a decision to join. Talk it over with your spouse, an accountant, or a lawyer, or a knowledgeable friend who isn't involved in the business.
7. Do your homework! Check with your local Better Business Bureau and state Attorney General about any plan you're considering, especially if the claims about your potential earnings or the product sound too good to be true.

Visit the FTC's web site at **[www.ftc.gov](http://www.ftc.gov)** for more information about get-rich-quick or self-employment schemes.